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SUBJECT: GLIMMERS OF TURKISH RE-ENGAGEMENT WITH THE WORLD BANK

REF: A. ANKARA 808  
B. ANKARA 763  
C. ANKARA 608

**¶1.** (Sbu) Summary: Country Director Andrew Vorkink painted a mixed picture on Turkish re-engagement with the World Bank. In two sectors, energy and banking, the GOT has shifted to meaningful engagement in recent weeks, in both cases working with the Bank to develop a new interagency-coordinated strategy. The Bank is also trying to get the GOT to work with it on anti-corruption issues. According to Vorkink, the Prime Ministry Undersecretary has consciously avoided engaging with the Bank on the proposed Public Administration reform. Vorkink said the Prime Minister said all the right things in his meeting with Wolfensohn, and Wolfensohn will attend the March 15 foreign investors' conference in Istanbul. The GOT continues to press for CEO participation, and worries about lower-level attendance. End Summary.

**¶2.** (Sbu) As reported earlier, following the September meeting in Dubai between World Bank President Wolfensohn and Economy Minister Babacan, the GOT committed to re-engage with the World Bank, and the Bank sent Europe Director Shigeo Katsu to Turkey for a high-profile visit in December. In a meeting with Econoffs February 11, World Bank Country Director Andrew Vorkink and Economist Ismail Arslan said there have been some recent signs of GOT re-engagement with the World Bank, particularly on banking and energy issues.

Energy Sector:

**¶3.** (Sbu) Vorkink said he was encouraged that in the past two weeks the Bank has had a constructive dialogue with the GOT on developing an energy sector strategy. Over the past year, different parts of the government made public statements and did not coordinate. As a result, there has been no action. Vorkink said the Bank took the initiative of proposing to help the GOT work out an interagency-agreed strategy, using input from international experts. He said the GOT accepted the Bank's proposal and the Bank brought a team of experts in January. Vorkink said Turkish Treasury has played a helpful role in bringing the GOT agencies together, in order to meet a condition of the World Bank's Economic Reform Loan (ERL). To meet the loan condition, either the Council of Ministers or the High Planning Council has to approve a strategy by March 31. Arslan was hopeful the relevant GOT officials would agree on a strategy by the end of the month, since there are signs that the Energy Ministry is now cooperating with the regulatory agency (EMRA). On the overall concept of moving to market-based regional electricity pricing, Vorkink thought there might be a way to allay the Prime Minister's concerns about expensive pricing in relatively poor Eastern Turkey.

**¶4.** (Sbu) Econcouns noted that the GOT seems to be pressuring U.S.-owned power companies to lower electricity prices, instead of entering into good faith discussions. Vorkink said the Bank has to be careful not to get in the middle between a government and a private party but noted that international best practices can help evaluate the problems with the GOT's power contracts and that the problems with the BOT's were not all the same. Vorkink said the Bank had offered to brief the U.S. Treasury on its analysis.

Banking Sector:

**¶5.** (Sbu) Vorkink was similarly optimistic on banking sector issues, despite the absence of progress on state-owned bank

privatization and pessimism expressed by IMF officials (ref b). Rather than simply insisting on privatization, Vorkink said the Bank had replicated the approach it took on energy reforms: it offered to facilitate an interagency process--with Bank-provided expert international input--to come up with a new, GOT-wide strategy. The Bank has found the GOT receptive to this approach and a high-level interagency team is being established to come up with a strategy. Vorkink noted that there are multiple options besides trying to privatize the state banks outright, such as setting some kind of asset management company to hold the state banks' huge government securities portfolios, or unbundling the functions of the state banks. Comment: Given that many local observers wonder who would buy the State banks in their current, overstaffed, overbranched and government securities-laden situation, and the obvious reticence of the GOT to tackle the issue, the Bank approach may hold the potential for progress on this issue. End Comment.

Other, less Engaged Sectors:

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16. (Sbu) Vorkink said he was trying to elicit GOT interest in working with the Bank on anti-corruption and good governance issues. Though the AK Party Government has emphasized anti-corruption and good governance in its public statements, Vorkink noted there has been little tangible action. In this field, he praised the work of a Turkish NGO in Istanbul, Tedmer, which is working on corporate governance, training corporate ethics officers who are then placed in Turkish companies. Tedmer works with a Washington-based NGO, the Ethics Resource Center (ERC). Vorkink and Arslan said the GOT created a high-level committee on anti-corruption, but it has not yet met. The Bank is willing to help and, if the GOT cooperates, adjustment operation money would be disbursed.

17. (Sbu) On public administration reforms, Vorkink differentiated between the close cooperation over the Public Financial Management and Control Law and the complete absence of engagement over the GOT's current effort to conduct a far-reaching reform of the Public Administration, including a big decentralization of power to municipalities. Vorkink said that Undersecretary to the Prime Minister Dincer has made a conscious decision to keep clear of international organizations in spearheading this reform, so as to avoid potential criticism that the GOT is doing this reform under IFI conditionality. Vorkink is trying to convince other GOT officials (he mentioned Deputy Prime Minister Sahin) that Dincer would be better off with legislation bearing the imprimatur of international agencies.

Prime Minister's Meeting with Erdogan:

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18. (Sbu) Vorkink had attended Prime Minister Erdogan's Washington meeting with Wolfensohn and said it went well. Erdogan was well-briefed and charismatic, and expressed appreciation for the Bank's activities in Turkey. It was Wolfensohn's first meeting with Erdogan, but they will be meeting again March 15 when Wolfensohn comes to Istanbul for the Foreign Investor's Council meeting.

Attracting CEO's to the Foreign Investors' Council:

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19. (Sbu) The World Bank, the IMF and the Government of Turkey are co-sponsoring this oft-postponed event, in which CEO's from multinationals will meet in a closed-door session with the Prime Minister and his economic ministers. Vorkink rattled off an impressive list of major multinationals who have agreed to attend and said the Bank has been telling the GOT that this is not a roadshow presentation on Turkey. Instead, it's a chance for senior executives to speak frankly with the GOT about investment issues and for the GOT to explain what it is doing. Econcouns told Vorkink that Turkish Treasury Director General for Investment Melek Us had called him to complain about the absence of senior U.S. executives attending, to which Econcouns responded that it was probably related to the absence of progress on all the American companies' investment disputes. Us complained that in some cases, companies such as Citigroup, had agreed to send executives, but they were not CEO's. Vorkink said Wolfensohn had told Erdogan that household name CEO's sometimes cannot attend such events but that the next level executive is often the one making investment decisions, and should be welcomed. But Vorkink said Minister Babacan is worried that if the executives are too low-ranking, it sends a bad signal and will discourage the few senior executives who show up not to come in the future.

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